



October 2016

DOD INVENTORY OF CONTRACTED SERVICES

Timely Decisions and
Further Actions
Needed to Address
Long-Standing Issues

GAO Highlights

Highlights of [GAO-17-17](#), a report to congressional committees

Why GAO Did This Study

DOD is the government's largest purchaser of contractor-provided services. In 2008, Congress required DOD to compile and review an annual inventory of its contracted services to identify the number of contractors performing services and the functions contractors performed. In 2011, Congress required DOD to use that inventory to inform certain decision-making processes, including workforce planning and budgeting. GAO has previously reported on the challenges DOD faces in compiling, reviewing, and using the inventory. Since 2011, GAO made 13 recommendations intended to improve DOD's use of the inventory. Of these, DOD has yet to fully address 8 open recommendations.

Congress included a provision in statute for GAO to report on DOD's required reviews and plans to use the inventory. This report assesses the extent to which DOD components (1) reviewed contracts and activities in the fiscal year 2014 inventory of contracted services, and (2) developed plans to use the inventory for decision making. GAO reviewed relevant laws and guidance and 40 components' inventory review certification letters, and interviewed DOD acquisition, manpower, and programming officials.

What GAO Recommends

GAO is not making new recommendations in this report. In its comments, DOD noted that it intends to address GAO's eight open recommendations, including those related to determining its approach for compiling the inventory and defining the roles and responsibilities of a key support office and stakeholders.

View [GAO-17-17](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or tinapoli@gao.gov.

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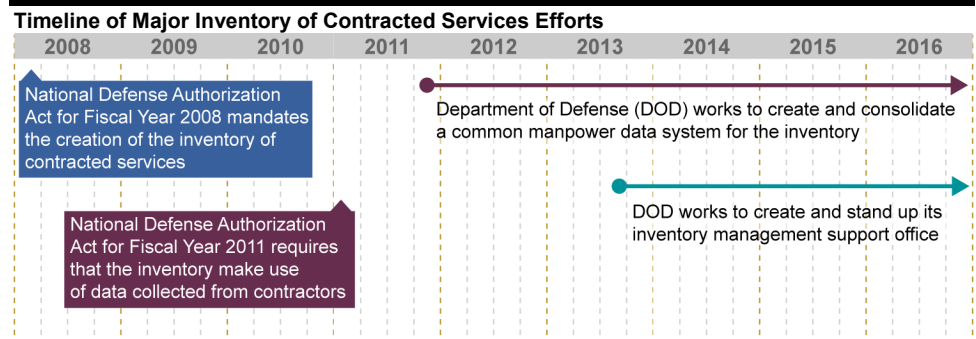
DOD INVENTORY OF CONTRACTED SERVICES

Timely Decisions and Further Actions Needed to Address Long-Standing Issues

What GAO Found

In fiscal year 2014, 40 Department of Defense (DOD) components in total certified that they had conducted an inventory review. Components are required by DOD guidance to address six elements in their certification letters, including, for example, identifying any inherently governmental functions and unauthorized personal services contracts. More components—21 out of 40—addressed all of the required review elements compared to prior years. However, DOD components may continue to underreport the extent to which contractors were providing services that are closely associated with inherently governmental functions, a key review objective to help ensure that DOD has proper oversight in place. For example, GAO's analysis indicates that DOD obligated about \$28 billion for contracts in 17 categories—such as professional and management support services—that the Office of Federal Procurement Policy and GAO identified as more likely to include closely associated with inherently governmental functions. In comparison, components identified a total of \$10.8 billion in obligations or dollars invoiced for contracts that included work identified as closely associated with inherently governmental functions—either within the 17 categories or for any other category of service. Most of these functions were identified by the Army using its long-standing review process.

The military departments have not yet developed plans to use the inventory to inform workforce mix, strategic workforce planning, and budget decision-making processes, as statutorily required. DOD has made some recent progress on requiring components to identify an accountable official to lead efforts to develop plans and establish processes for using their inventories in decision making, a step GAO recommended in November 2014. However, DOD faces continued delays in deciding on the path forward for its underlying inventory data collection system, staffing its inventory management support office, and formalizing the roles and responsibilities of that office and stakeholders (see figure).



Source: GAO analysis of Department of Defense documents. | GAO-17-17

GAO previously recommended that DOD address these issues to improve the usefulness of the inventory. DOD concurred with these recommendations but has not yet addressed them. These continued delays hinder DOD's ability to use the inventory of contracted services as intended, including using the inventory data to inform workforce and budget decision-making processes.

Contents

Letter		1
	Background	5
	Components' Reporting of Inventory Review Elements Continued to Improve, but Limitations with the Resulting Information Provided in Certification Letters Persist	11
	Continued Delays on Key Management Decisions Hinder Efforts to Develop Statutorily Required Plans to Use the Inventory to Inform Workforce and Budget Decisions	19
	Agency Comments	26
Appendix I	Past GAO Reports and Recommendations on the Inventory of Contracted Services	29
Appendix II	Summary of Prior Findings on the Military Departments' Implementation of Plans to Facilitate Use of the Inventory	32
Appendix III	Comments from the Department of Defense	38
Appendix IV	GAO Contact and Staff Acknowledgments	39
Tables		
	Table 1: Estimated Number of Contractor Full-Time Equivalents (FTE) and Obligations as Reported in the Department of Defense's (DOD) Inventory of Contracted Services, Fiscal Years 2008-2015	6
	Table 2: Percentage of Contractor Full-Time Equivalents in the Inventory Submission Reported by the Military Departments as Based on the Contractor Manpower Reporting Application	25
	Table 3: Past GAO Reports and Recommendations on the Inventory of Contracted Services	29
	Table 4: Role of the Inventory of Contracted Services in Existing Strategic Workforce Planning Guidance and Processes at the Three Military Departments	33

Table 5: Role of the Inventory of Contracted Services in Existing Workforce Mix and Insourcing Guidance and Processes at the Three Military Departments	34
Table 6: Role of the Inventory of Contracted Services in Existing Budgeting Guidance and Processes at the Three Military Departments	37

Figures

Figure 1: Requirements under Title 10 Section 2330a Subsection (f)	9
Figure 2: Percentage of Components That Addressed Each Department of Defense (DOD) Required Element for Certifying a Review of the Inventory of Contracted Services by Fiscal Year	13
Figure 3: Number and Percentage of Department of Defense (DOD) Reporting Components That Addressed All Required Elements in Certification Letters by Fiscal Year	14
Figure 4: Department of Defense Components' Reporting of Obligations for Contracts that Included Closely Associated with Inherently Governmental Functions in Fiscal Year 2014	16
Figure 5: Key Events Related to Department of Defense (DOD) Establishing a Common Manpower Data System for the Inventory	22
Figure 6: Key Events Related to Standing Up the Support Office	23

Abbreviations

CMRA	Contractor Manpower Reporting Application
DOD	Department of Defense
ECMRA	Enterprise-wide Contractor Manpower Reporting Application
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System – Next Generation
FTE	full-time equivalent
OFPP	Office of Federal Procurement Policy
TFMSO	Total Force Management Support Office
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
USD(P&R)	Under Secretary of Defense for Personnel and Readiness

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October 31, 2016

Congressional Committees

The Department of Defense (DOD) is the federal government's largest purchaser of contractor-provided services, with \$156 billion in obligations for service contracts reported for fiscal year 2014 and \$144 billion reported in fiscal year 2015. DOD relies on contractors to perform various functions, such as professional and management support, information technology support, and weapon system support. Contractor personnel constitute a key portion of DOD's total workforce, which also includes DOD active and reserve forces and DOD civilian employees, and are vital to helping DOD meet its mission. While there are benefits to using contractors to perform services for the government, the government can become overly reliant on contractors in some situations, such as when a contractor performs functions that put an agency at risk of losing control over functions that are core to its mission and operations.

In recent years, Congress enacted legislation to improve DOD's ability to manage its acquisitions of contracted services, to make more strategic decisions about the appropriate workforce mix, and to better align resource needs through the budget process to achieve that mix. As part of these efforts, section 2330a of title 10 of the U.S. Code requires DOD to annually compile, and the military departments and defense agencies to review, an inventory of services contracted for or on behalf of DOD during the preceding fiscal year. This inventory is intended, in part, to help provide better insight into the number of contractor full-time equivalents (FTE) providing services to the department and the functions they are performing, and determine whether any of these functions warrant conversion to DOD civilian performance.¹ Further, this section also requires DOD to undertake certain actions using these inventories. Specifically, subsections (e) and (f), respectively, direct the secretaries of

¹An FTE is a standard measure of labor that equates to one year of full-time work (labor hours as defined by the Office of Management and Budget Circular A-11 each year). To report the number of contractor FTEs, one would divide the number of direct labor hours reported by a contractor for each contracted service by the number of labor hours in a federal employee work year, which was 2,080 in fiscal year 2014.

the military departments or heads of the defense agencies to, among other things

- review the inventory to ensure that personal services contracts on the list are performed under applicable statutes and regulations and identify contracted functions that DOD should consider for conversion; and
- develop a plan, including an enforcement mechanism and approval process, to use the inventory for strategic workforce planning, workforce mix, and budgeting decisions.

Section 951(a) of the National Defense Authorization Act for Fiscal Year 2014 included a provision for us to report on DOD's implementation of title 10 section 2330a subsections (e) and (f).² This report assesses DOD's efforts to implement these subsections, specifically (1) subsection (e) to review contracts and activities in the inventory of contracted services for the fiscal year 2014 inventory and (2) subsection (f) to develop plans and processes to use the inventory for strategic workforce planning, workforce mix, and budget decisions.

To assess the extent to which DOD components—which include the three military departments and the defense agencies—complied with the requirements to review applicable contracts and activities in its inventory of contracted services pursuant to subsection (e), we focused on DOD's fiscal year 2014 inventory and associated review, which was the latest inventory and review available when we initiated our work. We reviewed DOD's fiscal year 2014 inventory submission and review guidance, issued on December 29, 2014 by the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) and the Under Secretary of Defense for Personnel and Readiness (USD(P&R)). This guidance required the military departments and defense agencies to certify—through submission of a certification letter to the USD(P&R)—that their review was conducted in accordance with subsection (e). The guidance also required components to report on six elements, such as the extent to which contractors were found to be performing inherently governmental functions and those closely associated with inherently governmental functions, among other elements. The number of DOD

²Pub. L. No. 113-66 (2013).

components submitting annual inventories and the associated review certification letters has varied since fiscal year 2011 in part because, prior to its fiscal year 2014 guidance, DOD had not identified a list of components required to submit and review an inventory. For this report, we focused on the 40 components that compiled a fiscal year 2014 inventory and submitted an unclassified review certification letter to USD(P&R) by July 2016. We analyzed these 40 unclassified certification letters to determine if components addressed all six required elements. We also interviewed officials at USD(P&R) and USD(AT&L) responsible for the inventory to assess changes made to the inventory guidance and the review and certification process. We interviewed officials at each of the military departments—the Army, Navy, and Air Force—responsible for compiling and reviewing the inventory regarding internal guidance on the inventory of contracted services. We also reviewed relevant DOD Office of the Inspector General reports on the inventory of contracted services.³ To gauge the extent to which DOD components identified instances in which contractors may be performing activities closely associated with inherently governmental functions, we identified total obligations for contracts in the inventory that were categorized under the 17 product service codes that the Office of Federal Procurement Policy (OFPP) and GAO identified as likely to include closely associated with inherently governmental functions.⁴ We compared these obligations to total obligations certified by DOD components as for contractors performing closely associated with inherently governmental functions in the fiscal year 2014 certification letters.⁵ To assess the reliability of the inventory

³For example, see Department of Defense Inspector General, *Independent Auditor's Report on Agreed-Upon Procedures for DOD Compliance with Service Contract Inventory Compilation and Certification Requirements for FY 2014*, DODIG-2016-092 (Alexandria, Va.: May 19, 2016).

⁴Office of Management and Budget, Office of Federal Procurement Policy, Memorandum for Chief Acquisition Officers and Senior Procurement Executives, *Service Contract Inventories* (Nov. 5, 2010); and GAO, *Managing Service Contracts: Recent Efforts to Address Associated Risks Can Be Further Enhanced*, [GAO-12-87](#) (Washington, D.C.: Dec. 7, 2011). Closely associated with inherently governmental functions are those functions that, while not inherently governmental, may approach being in that category because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the government administers performance under the contract. Section 7.503(d) of the Federal Acquisition Regulation (FAR) provides examples of such functions.

⁵For the Army, we compared invoiced dollars rather than obligations because the Army's inventory and review is based on invoiced dollars rather than obligations.

submission data, we compared the submission data to the Federal Procurement Data System – Next Generation (FPDS-NG) data for fiscal year 2014, reviewed related documentation, and interviewed DOD officials knowledgeable about the data. Based on these steps, we determined the data were sufficiently reliable for the purposes of our reporting objective. We did not independently assess the accuracy or reliability of the underlying data supporting the components' inventories of contracted services and associated reviews.

To assess the extent to which DOD components have developed plans and enforcement mechanisms to use the inventory to inform management decisions pursuant to subsection (f), we used the data we collected for our November 2014 report on this issue to establish the extent to which each military department's strategic workforce planning, manpower mix, and budgeting guidance and processes required or cited the use of the inventory of contracted services.⁶ We then interviewed officials from each military department to determine what updates, if any, had been made to the guidance and processes. We confirmed whether the guidance identified in our November 2014 report remained current as of July 2016, and identified any changes made subsequent to that report. We also interviewed acquisition and manpower officials at each military department to assess the status of the military department's plans to identify an accountable official to lead and coordinate efforts to develop plans and enforcement mechanisms. We reviewed components' fiscal year 2014 inventory submissions to determine the extent to which components increased their use of the Contractor Manpower Reporting Application (CMRA) for developing their inventories compared to prior years. We also assessed DOD's efforts to develop and implement the Enterprise-wide Contractor Manpower Reporting Application (ECMRA)—a common data system based on four separate CMRA systems within DOD—and to establish an office to support these efforts—the Total Force Management Support Office (TFMSO)—by interviewing officials from USD(P&R), the military departments, and TFMSO.

We conducted this performance audit from February 2016 to October 2016 in accordance with generally accepted government auditing

⁶GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: Nov. 19, 2014).

standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Inventory Compilation Requirements

In part to improve the information available and management of DOD's acquisition of services, in 2001 Congress enacted section 2330a of title 10 of the U.S. Code, which required the Secretary of Defense to establish a data collection system to provide management information on each purchase of services by a military department or defense agency.⁷ Congress amended section 2330a in 2008 to add a requirement for the Secretary of Defense to submit an annual inventory of the activities performed pursuant to contracts for services on behalf of DOD during the preceding fiscal year.⁸

The inventory is to include a number of specific data elements for each identified activity, including

- the function and missions performed by the contractor;
- the contracting organization, the component of DOD administering the contract, and the organization whose requirements are being met through contractor performance of the function;
- the funding source for the contract by appropriation and operating agency;
- the fiscal year the activity first appeared on an inventory;

⁷National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, §801(c) (2001).

⁸National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, §807(a).

- the number of contractor employees (expressed as FTEs) for direct labor, using direct labor hours and associated cost data collected from contractors;⁹
- a determination of whether the contract pursuant to which the activity is performed is a personal services contract;¹⁰ and
- a summary of the information required by subsection 2330a(a) of title 10 of the U.S. Code.¹¹

Within DOD, USD(AT&L), USD(P&R), and the Office of the Under Secretary of Defense (Comptroller) have shared responsibility for issuing guidance for compiling and reviewing the inventory. USD(P&R) compiles the inventories prepared by the components, and USD(AT&L) is to submit a consolidated DOD inventory to Congress no later than June 30 of each fiscal year. DOD has submitted annual, department-wide inventories for fiscal years 2008 through 2015,¹² the most recent submitted on September 20, 2016 (see table 1).

Table 1: Estimated Number of Contractor Full-Time Equivalents (FTE) and Obligations as Reported in the Department of Defense's (DOD) Inventory of Contracted Services, Fiscal Years 2008-2015

Fiscal year	Estimated number of contractor FTEs	Total obligations (in billions)
2008	655,000	\$127
2009	767,000	\$155
2010	623,000	\$121
2011	710,000	\$145
2012	670,000	\$129
2013	629,000	\$123

⁹Estimates of full-time equivalents may be used where such data are not available and cannot reasonably be made available in a timely manner for the purposes of the inventory. 10 U.S.C. § 2330a(c)(2)(E).

¹⁰A personal services contract is a contract that, by its express terms or as administered, makes the contractor personnel appear to be, in effect, government employees. Agencies shall not award personal services contracts unless specifically authorized by statute to do so. FAR §§ 2.101, 37.104(b).

¹¹10 U.S.C. § 2330a(c)(2).

¹²The Army also submitted an inventory of contracted services for fiscal year 2007.

Fiscal year	Estimated number of contractor FTEs	Total obligations (in billions)
2014	641,000	\$131
2015	561,000	\$115

Source: DOD's inventory of contracted services. | GAO-17-17

Notes: Army's inventory data reflects total invoiced dollar amounts rather than obligations. Two components reported using both obligations and invoiced dollar amounts in their fiscal year 2014 inventory data. In addition, some components used data input by contractors into DOD's Contractor Manpower Reporting Application to supplement derived contractor FTEs.

The changes in DOD's overall approach, in particular how DOD as a whole reflected research and development services and the use of different formulas for estimating contractor FTEs, among other factors, affected the reported changes in inventory data from year to year. Consequently, we and DOD officials agree that caution should be exercised when making direct comparisons between fiscal years 2008 through 2015 inventory data. All FTE figures are rounded to the nearest thousand.

As we previously reported, the service contract obligations reported in the inventory of contracted services for a given fiscal year may not match the amount of contract obligations from the Federal Procurement Data System – Next Generation (FPDS-NG), in part because the FPDS-NG obligation amount for services captures categories of services that are not reported in the inventory. See [GAO-13-491](#).

Since DOD began reporting on the department-wide inventory of contracted services in fiscal year 2008, the primary source used by most DOD components to compile their inventories, with the exception of the Army, has been FPDS-NG.¹³ The Army developed its CMRA system in 2005 to collect information on labor-hour expenditures by function, funding source, and mission supported on contracted efforts, and has used its CMRA as the basis for its inventory. The Army's CMRA is intended to capture data directly reported by contractors on services performed at the contract line item level, including information on the direct labor dollars, direct labor hours, total invoiced dollars, the functions performed, and the organizational unit for which the services are being performed. In instances where contractors are providing different services under the same contract action, or are providing services at multiple locations, contractors can enter additional records in CMRA to capture information associated with each type of service or location. It also allows for the identification of services provided under contracts for goods.

¹³Our previous work identified data limitations with those DOD components using data from FPDS-NG as the basis for their inventories. GAO, *Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services*, [GAO-13-491](#) (Washington, D.C.: May 23, 2013).

Inventory Review and Use Requirements

Subsection 2330a(e) of title 10 of the U.S. Code requires the secretaries of the military departments or heads of the defense agencies to complete a review of the contracts and activities in the inventory for which they are responsible within 90 days of the inventory being submitted to Congress. USD(P&R), as supported by the Comptroller, is responsible for, among other things, developing guidance for the conduct and completion of this review.¹⁴ As part of this review, the military departments and defense agencies are to ensure that

- any personal services contracts in the inventory were properly entered into and performed appropriately;
- the activities on the list do not include any inherently governmental functions;¹⁵ and
- to the maximum extent practicable, the activities in the inventory do not include any functions closely associated with inherently governmental functions.

This review also requires the secretaries of the military departments and heads of defense agencies to identify activities that should be considered for conversion to government performance, or insourced, pursuant to section 2463 of title 10 of the U.S. Code, or to a more advantageous acquisition approach. Section 2463 specifically requires the Secretary of Defense to make use of the inventory to identify critical functions, acquisition workforce functions, and closely associated with inherently governmental functions performed by contractors—and to give special consideration to converting those functions to DOD civilian performance.

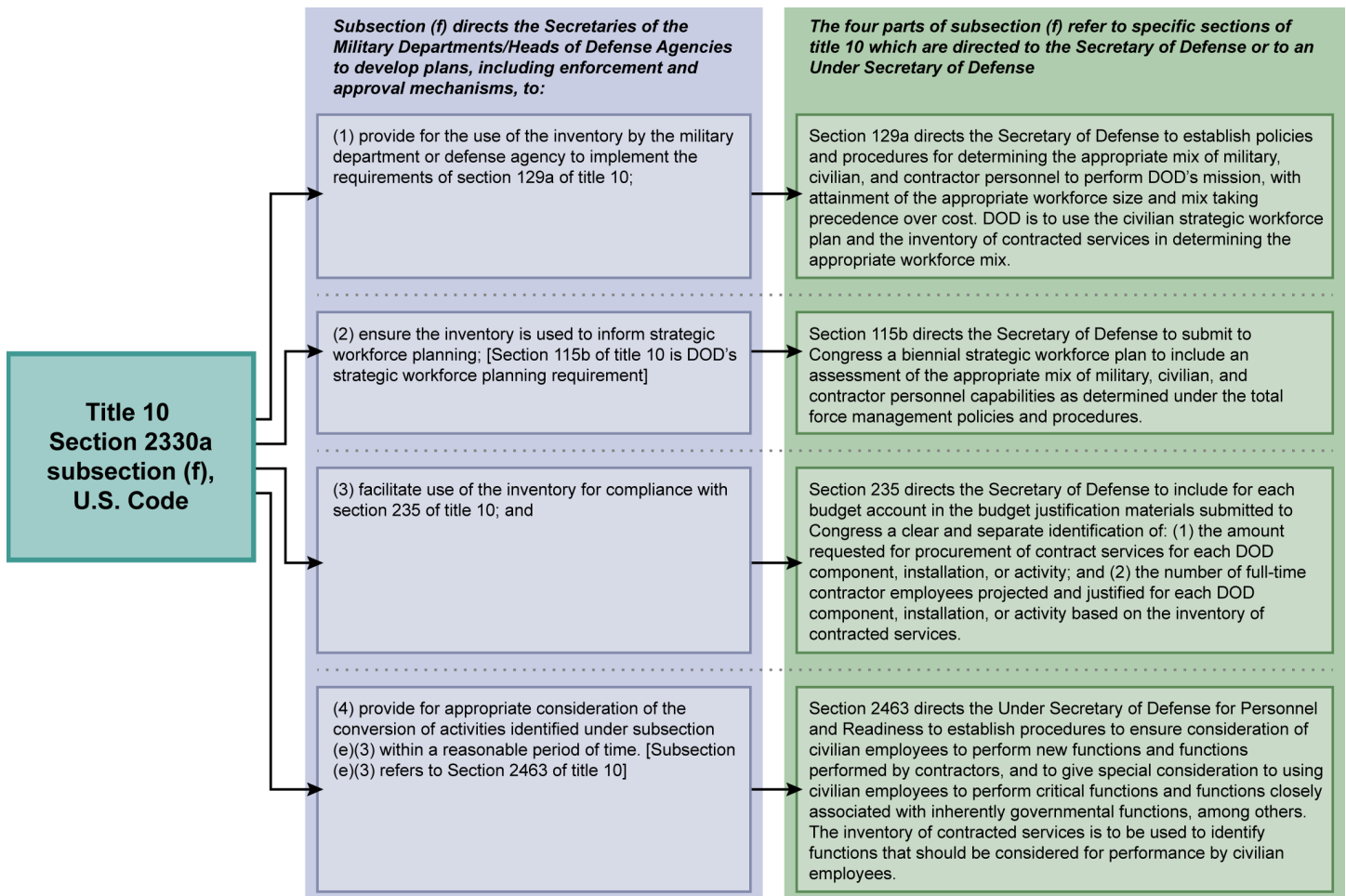
In addition, subsection 2330a(f) of title 10 of the U.S. Code requires the secretaries of the military departments or heads of the defense agencies responsible for contracted services in the inventory to develop a plan,

¹⁴10 U.S.C. § 2330a(c)(1)(A)(iii).

¹⁵Inherently governmental function means, as a matter of policy, a function that is so intimately related to the public interest as to mandate performance by government employees and includes functions that require the exercise of discretion in applying government authority, or making value judgements in making decisions for the government. Section 7.503(c) of the FAR provides examples of such functions. Contracts shall not be used for the performance of inherently governmental functions. FAR § 7.503(a). See also, FAR § 2.101.

including an enforcement mechanism and approval process, for using the inventory to inform management decisions (see figure 1).

Figure 1: Requirements under Title 10 Section 2330a Subsection (f)



Source: GAO analysis of title 10 statutory requirements | GAO-17-17

Collectively, these statutory requirements mandate the use of the inventory and the associated review process to enhance the ability of DOD to identify and track services provided by contractors, achieve accountability for the contractor sector of DOD's total workforce, help identify contracted services for potential conversion from contractor performance to DOD civilian performance, support DOD's determination

of the appropriate workforce mix, and project and justify the number of contractor FTEs included in DOD's annual budget justification materials.

Prior GAO Work

Over the past five years, we have issued several reports on DOD's efforts to compile and review its inventory of contracted services and made recommendations on a variety of issues related to the inventories. For example, in January 2011, we found that the military departments had differing approaches to reviewing the activities performed by contractors, and the department stated it had a goal of collecting manpower data from contractors for future inventories.¹⁶ We recommended that the department develop a plan of action to facilitate the department's intent of collecting manpower data and address other limitations to its current approach to meeting inventory requirements. The department concurred with our recommendation but had not addressed it as of August 2016. In November 2015, we found that the lack of documentation on whether a proposed contract includes closely associated with inherently governmental functions may result in inventory review processes incorrectly reporting these functions, and recommended that DOD require acquisition officials to document, prior to contract award, whether the proposed contract action includes activities that are closely associated with inherently governmental functions.¹⁷ DOD concurred with our recommendation, but has not yet implemented it. A full list of our prior reports on DOD's inventory of contracted services, the recommendations from those reports, and the current status of those recommendations—including eight that remain open—is included in appendix I.

Our prior work has also consistently found that the absence of a complete and accurate inventory of contracted services hinders DOD's ability to improve its management of these services. For example, in a June 2016 report on DOD headquarters personnel reduction efforts, we found that DOD does not have reliable data for assessing headquarters functions and associated costs, including those performed by contractor

¹⁶GAO, *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, [GAO-11-192](#) (Washington, D.C.: Jan. 14, 2011).

¹⁷GAO, *DOD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data Are Complete and Accurate*, [GAO-16-46](#) (Washington, D.C.: Nov. 18, 2015).

personnel.¹⁸ We concluded that without reliable information, DOD may not be able to accurately assess specific functional areas or identify potential streamlining and cost savings opportunities. In a December 2015 report on civilian and contractor personnel reductions, we found that limitations in the methodology for contractor FTE estimates in the inventory may hinder efforts to implement statutorily mandated reporting on reductions in contractor personnel.¹⁹ Further, in a February 2016 report on DOD efforts to forecast service contract requirements, we found that existing data on DOD's future spending for contracted service requirements was not fully captured by DOD's programming and budget processes, an effort the inventory of contracted services is intended to support. We noted that critical to being more strategic is knowing what DOD is spending today and what DOD intends to spend in the future.²⁰

Components' Reporting of Inventory Review Elements Continued to Improve, but Limitations with the Resulting Information Provided in Certification Letters Persist

More DOD components conducted and certified the completion of an inventory review as required by subsection 2330a(e) of title 10 of the U.S. Code and DOD's guidance, respectively, in fiscal year 2014 as compared to previous years. Overall, we found that the 40 components' certification letters addressed more of DOD's required elements in comparison to prior years, with over half of the components including all six of the required elements. In some areas, however, we continued to find limitations with the information provided in the certification letters. For example, the level of detail and input provided on the use of the inventory to inform annual program reviews and budget processes varied. In addition, we continued to find significant differences and potential underreporting in the extent to which components identified instances of contractors providing services that are closely associated with inherently governmental functions in their inventories. For example, through its review process, the Army identified \$8.1 billion in invoiced dollars for

¹⁸GAO, *Defense Headquarters: Improved Data Needed to Better Identify Streamlining and Cost Savings Opportunities by Function*, [GAO-16-286](#) (Washington, D.C.: June 30, 2016).

¹⁹GAO, *Civilian and Contractor Workforces: Complete Information Needed to Assess DOD's Progress for Reductions and Associated Savings*, [GAO-16-172](#) (Washington, D.C.: Dec. 23, 2015).

²⁰GAO, *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, [GAO-16-119](#) (Washington, D.C.: Feb. 18, 2016).

contracts that include closely associated with inherently governmental functions, nearly three times the amount identified by the Navy, Air Force, and other defense agencies collectively for similar types of contracts.

Certification Letters Included More Required Elements but Level of Detail in Review Results Varied

USD(AT&L) and USD(P&R)'s December 29, 2014, guidance governing the fiscal year 2014 inventory of contracted services required the military departments and defense agencies to certify—through submission of a certification letter to the USD(P&R)—that their review was conducted in accordance with subsection 2330a(e) of title 10 of the U.S. Code. As of July 2016, 40 DOD components reporting for fiscal year 2014 certified that they had reviewed their inventories. Notably, the Air Force, which represented close to 18 percent of DOD's contract obligations for services in fiscal year 2014, submitted a review certification letter for the first time since the fiscal year 2011 inventory. The Army submitted an interim certification letter in April 2016 based on a review of the contracted functions performed by 73 percent of its contractor FTEs from its fiscal year 2014 inventory.

DOD's guidance for fiscal year 2014, among other things, requires components to include six elements in their certification letters.²¹ DOD components' certification letters have generally improved each year since 2011 in terms of the number of elements addressed. See figure 2 for the list of required elements and the percentage of components that addressed each element in their certification letters for fiscal years 2011 to 2014.

²¹DOD's guidance for the fiscal year 2012 and 2013 inventories instructed components to report on the same six elements, in addition to a seventh which required components to delineate review results in accordance with all applicable title 10 provisions and the guidance. DOD officials responsible for developing the fiscal year 2014 guidance stated that they removed this element because it was considered redundant.

Figure 2: Percentage of Components That Addressed Each Department of Defense (DOD) Required Element for Certifying a Review of the Inventory of Contracted Services by Fiscal Year

	2011	2012	2013	2014
Total number of components that submitted a certification letter for each fiscal year inventory ^a	29	32	35	40
Number of required elements ^b	6	7	7	6
Description of required elements	Percentage of components that addressed the requirement			
An explanation of the methodology used to conduct the reviews and criteria for selection of contracts to review	52%	75%	86%	88%
Delineation of the results in accordance with all applicable title 10 provisions and the guidance	21%	75%	69%	Not required
The identification of any inherently governmental functions or unauthorized personal services contracts, with a plan of action to either divest or realign such functions to government performance	97%	100%	97%	93%
The identification of contracts under which closely associated with inherently governmental functions are being performed and an explanation of steps taken to ensure appropriate government control and oversight, or if necessary, a plan to divest or realign such functions to government performance	83%	94%	94%	93%
The identification of contracted services that are exempt from private sector performance in accordance with DOD Instruction 1100.22, require special consideration under 10 U.S.C. § 2463; or are being considered for cost reasons, to be realigned to government performance	31%	66%	86%	90%
The actions being taken or considered with regards to annual program reviews and budget processes	48%	50%	57%	58%
A review results table showing the number of contractor full time equivalents and associated dollars performing inherently governmental and closely associated with inherently governmental functions, among other categories	Not required	81%	86%	100%

Source: GAO analysis of Department of Defense (DOD) guidance and component certification letters for fiscal years 2011, 2012, 2013, and 2014. | GAO-17-17

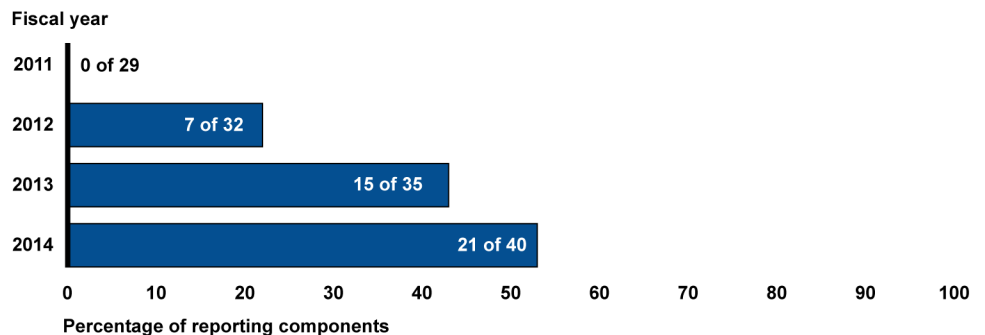
^aThe number of DOD components submitting a certification letter has varied since fiscal year 2011 in part because, prior to its fiscal year 2014 guidance, DOD had not identified a list of components required to submit an inventory. This analysis focuses on those components that submitted both an inventory and an associated unclassified certification letter for a given fiscal year.

^bDOD's guidance instructing components to report on a set of required elements in their certification letters has also varied. For example, the guidance for the fiscal year 2011, 2012, and 2013 inventories included an element requiring components to delineate their review results in accordance with all applicable title 10 provisions and the guidance. This element was not required in DOD's fiscal

year 2014 inventory guidance. In addition, DOD did not begin requiring components to include a review results table in their certification letters until the fiscal year 2012 inventory.

Overall, in fiscal year 2014 components addressed more of DOD's required elements in comparison to prior years, as 21 of the 40 components—or over half—addressed all required elements in their certification letters (see figure 3).

Figure 3: Number and Percentage of Department of Defense (DOD) Reporting Components That Addressed All Required Elements in Certification Letters by Fiscal Year



Source: GAO analysis of DOD component certification letters for fiscal years 2011, 2012, 2013, and 2014. | GAO-17-17

Note: Reporting components represent those that actually submitted a review certification letter for the fiscal year inventory of contracted services. Within each bar, the numbers represent the number of reporting components that addressed all of the required elements out of the total number of components reporting for that fiscal year.

While these findings demonstrate that improvements have been made in terms of compliance with the review requirements, review results reported in certification letters varied in terms of the level of detail and insights provided on certain elements, in particular for the element that requires components to provide input on actions being taken or considered with regard to annual program review and budget processes based on the inventory review results. For example, of the 23 components that we found addressed this requirement in their fiscal year 2014 certification letters,

- the Navy and one other component discussed specific actions taken or plans based on the inventory review results to inform existing or future program and budget processes;
- nine components, including the Air Force, discussed their existing or planned program review or budget processes, but did not explicitly state how the review results would be used to inform those processes;

-
- ten components, including the Army, described the inventory as one source of information available to inform programming and budget matters, but did not provide input on whether specific actions were taken or considered based on those review results; and
 - in two cases, components reiterated language from DOD’s review guidance in their certification letters to affirm that they had addressed the required element, but did so without adding any component-specific information.

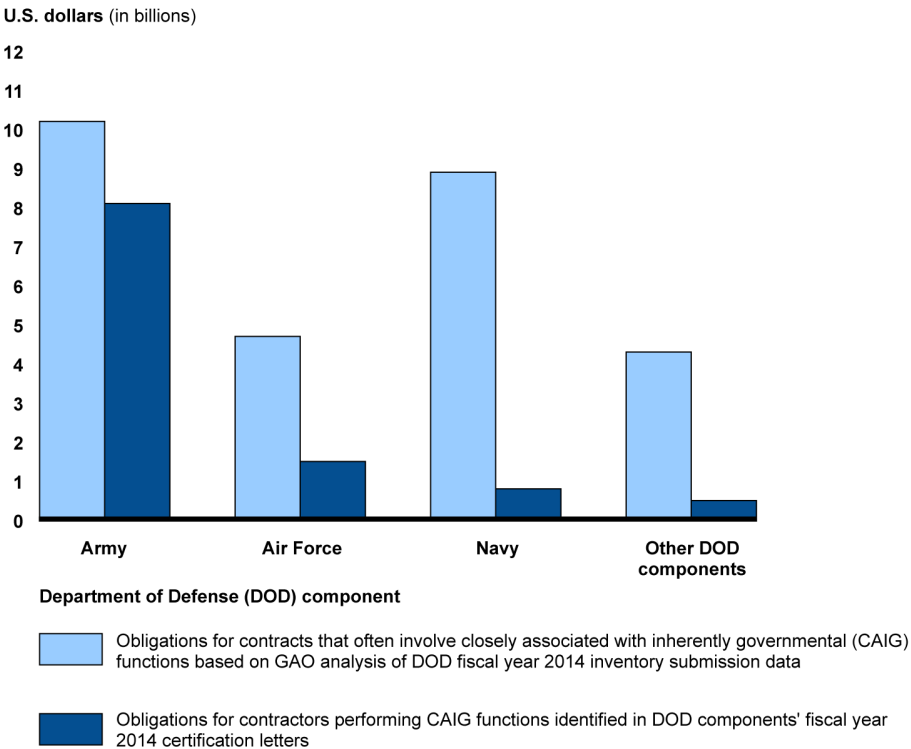
Of the 17 components that we found did not address the requirement in their fiscal year 2014 certification letters, 12 did not include any narrative related to the required element and therefore it is not clear whether the component had considered the use of the inventory in program reviews and budget processes. Three components’ certification letters stated explicitly that no actions were taken or considered based on the fiscal year 2014 review results, nor did they provide additional narrative to indicate whether the inventory review information is used generally to inform programming and budget matters. Two components each submitted a consolidated inventory and certification letter consisting of the collective review results and responses for the components under their purview, in which not all of the individual responses addressed the requirement.

Components May Continue to Be Underreporting Contractors Performing Closely Associated with Inherently Governmental Functions

Similar to our November 2015 report, we found that components may continue to be underreporting instances of contractors providing services that are closely associated with inherently governmental functions in their inventory review. In this regard, our analysis indicates that DOD obligated about \$28 billion for contracts in the 17 product service codes that OFPP and GAO identified as more likely to include closely associated with inherently governmental functions. In comparison, of the 40 components reporting for fiscal year 2014, 25 components identified a total of \$10.8 billion in obligations or dollars invoiced for contracts that included work identified as closely associated with inherently governmental functions—either within the 17 product service codes or for any other

category of service.²² We also found significant disparity among the components' reporting of these functions (see figure 4).

Figure 4: Department of Defense Components' Reporting of Obligations for Contracts that Included Closely Associated with Inherently Governmental Functions in Fiscal Year 2014



Source: GAO analysis of DOD's fiscal year 2014 inventory of contracted services data. | GAO-17-17

Note: Army's inventory data reflects total invoiced dollar amounts rather than obligations. Two other DOD components reported using both obligations and invoiced dollar amounts in their fiscal year 2014 inventory data.

Specifically, through its review process, the Army identified \$8.1 billion in invoiced dollars for contracts that include closely associated with

²²The remaining 15 components reporting for fiscal year 2014 did not identify any instances in which closely associated with inherently governmental functions were being performed.

inherently governmental functions.²³ In comparison, our analysis of Army's inventory data identified \$10.2 billion in invoiced dollars for Army contracts in the 17 product service codes. In contrast, the Navy, Air Force, and other defense agencies collectively identified only about \$2.7 billion in obligations and invoiced dollars for contracts that include closely associated with inherently governmental functions in their inventories, while our analysis of each component's inventory data identified \$17.9 billion in collective obligations for contracts in the 17 product service codes.²⁴

We previously found shortcomings with DOD's annual inventory review guidance, such as a lack of specific guidance on how to identify or review contract functions, and concluded that, as a result, components may be missing opportunities to properly identify contractors performing closely associated with inherently governmental functions. In November 2014, we recommended, in part, that DOD revise its guidance to clearly identify the basis for selecting contracts to review and to provide approaches the components may use to conduct inventory reviews to ensure that the nature of how the contract is being performed is adequately considered.²⁵ In November 2015, we reported that DOD's December 2014 guidance for the fiscal year 2014 inventory did not address our recommendation to provide such clarification; however, DOD officials noted that a risk-based approach to select which contracts to review may be appropriate. As

²³The Army's April 2016 interim certification letter, which includes data from a review of the functions performed in 73 percent of contractor FTEs in its fiscal year 2014 inventory, was used for this analysis. The certification letter did not include review data from five commands: the Army Materiel Command, Army North, the Army Corps of Engineers, the Army Reserve Command, and the Army National Guard. As a result, the data reported here may not reflect all of the Army's invoiced dollars for contracts identified as including closely associated with inherently governmental functions for its fiscal year 2014 inventory.

²⁴We previously reported that the Army uses a two-pronged approach to reviewing activities in their inventory. First, it uses a pre-award checklist to help assess whether the proposed contract includes closely associated with inherently governmental functions, among others. Second, it uses a post-award review, the Panel for Documentation of Contractors, to review information provided by commands to make certain determinations such as whether a contractor's performance of closely associated with inherently governmental functions has evolved into the performance of inherently governmental functions. The Panel for Documentation of Contractors also evaluates whether sufficient in-house capacity exists to oversee the contracted workforce. [GAO-13-491](#).

²⁵[GAO-15-88](#).

such, we recommended that DOD ensure that components review, at a minimum, those contracts within the product service codes identified as requiring heightened management attention and as more likely to include closely associated with inherently governmental functions.²⁶ DOD's March 2016 guidance for the review of the fiscal year 2015 inventory—the first issued after our recommendation—requires components to review those contracts; however, it is too soon to determine what effect the revised guidance will have on the components' forthcoming inventory reviews.

In addition to the lack of specific inventory review guidance, our November 2015 review also identified other factors that may also contribute to components incorrectly identifying contracts that may include closely associated with inherently governmental functions during the pre-contract award process. Specifically, we concluded that the lack of a requirement for acquisition officials to document, during the pre-award process, whether a proposed contract includes closely associated with inherently governmental functions hinders a component's ability to both identify and report on contractors performing such functions.²⁷ The Army's pre-award process, specifically the Request for Services Contract Approval form, requires documentation of a determination whether a contract includes closely associated with inherently governmental functions; however, the Air Force and Navy do not have department-wide requirements to document this determination in their contract files. DOD concurred with both of our November 2015 recommendations to require acquisition officials to document, prior to contract award, whether contract actions include such activities, and to provide clear instructions on how the service requirement review boards will be used to identify whether contracts contain such functions. Officials from the Office of Defense Procurement and Acquisition Policy—the office within USD(AT&L) responsible for contracting and acquisition policy—indicated at that time

²⁶ [GAO-16-46](#).

²⁷ DOD is required to take certain steps to mitigate the risk of using contractors for closely associated with inherently governmental functions before entering into a contract for such functions, and accurate identification before contract award of contracts that may include such functions is critical to carrying out these steps. 10 U.S.C. § 2383; DOD Federal Acquisition Regulation Supplement § 207.503 S-70. Further, the FAR and OFPP Policy Letter 11-01 require agencies to ensure appropriate oversight of contractors performing closely associated with inherently governmental functions. FAR § 37.114; and OFPP Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, Appendix C, 76 Fed. Reg. 56227, 56242.

that a forthcoming DOD Instruction on service acquisitions would include direction to consider planned activities under a contract during the service requirement review boards. DOD Instruction 5000.74, issued in January 2016, includes discussion related to identifying closely associated with inherently governmental functions in the inventory, but not in the context of the service requirement review boards.²⁸

Continued Delays on Key Management Decisions Hinder Efforts to Develop Statutorily Required Plans to Use the Inventory to Inform Workforce and Budget Decisions

The military departments generally have not developed plans to use the inventory of contracted services to inform workforce mix, strategic workforce planning, and budget decision-making processes, as required by the National Defense Authorization Act for Fiscal Year 2012.²⁹ DOD has recently made progress in identifying accountable officials to develop plans and establish processes for using the inventories in decision making, a step we recommended in November 2014 to help ensure the inventory is integrated into key management decisions. Despite this effort, DOD faces continued delays to key steps in the implementation of the inventory process, including choosing the path forward for its underlying inventory data collection system, staffing its inventory management support office, and formalizing the roles and responsibilities of that office and its relationship to the military departments and other stakeholders. Collectively, these persistent delays hinder the department's ability to use the inventory of contracted services as intended.

Military Departments Have Not Developed Plans to Facilitate Use of the Inventory

The military departments generally have not developed plans and enforcement mechanisms as required by subsection 2330a(f) of title 10 of the U.S. Code to use the inventory of contracted services to inform workforce mix, strategic workforce planning, and budget decision-making processes. Our November 2014 report on the fiscal year 2012 inventory found that the military departments—with the exception of the Army, which used the inventory to inform decisions about workforce mix and insourcing—lacked plans and processes to incorporate the inventory into

²⁸DOD Instruction 5000.74, *Defense Acquisition of Services* (Jan. 5, 2016), establishes a Services Requirements Review Board process for developing, analyzing, reviewing, and validating requirements for the acquisition of services, pursuant to section 2330 of title 10 of the U.S. Code. We have an ongoing review examining, in part, how the Service Requirements Review Boards are being implemented.

²⁹Pub. L. No. 112-81, § 936 (2011).

decision making.³⁰ While DOD's December 2014 guidance for the fiscal year 2014 inventory more explicitly required components to use the inventory reviews to inform programming and budget matters, and to inform their strategic workforce planning efforts—which carried through to their fiscal year 2015 guidance—our current work found that the military departments generally continue to lack plans and processes to do so. Appendix II presents the findings of the November 2014 report on these plans and processes, with updates, where appropriate.

At the department level, in January 2016, USD(AT&L) issued DOD Instruction 5000.74, Defense Acquisition of Services, which establishes policy, assigns responsibilities, and provides direction for the acquisition of contracted services. In commenting on our November 2015 report, DOD stated that this instruction would provide guidance on identifying closely associated with inherently governmental activities.³¹ The instruction notes that DOD components will submit an annual inventory of contracted services, and that the inventory and associated review are to be used to inform acquisition planning and workforce shaping decisions, but does not provide any specific guidance as to how the inventories are to contribute to such decisions, including guidance for identifying closely associated with inherently governmental activities. DOD officials more recently stated that this instruction is intended as policy for acquisition officials, not as a document on workforce planning.

We previously found that the responsibility for developing plans and enforcement mechanisms to use the inventory for decision-making processes was not clearly assigned and was divided across multiple offices. In our November 2014 report, we recommended that the secretaries of the military departments identify an accountable official to lead and coordinate efforts across the functional communities to develop plans and establish processes for using the inventory for decision making. DOD concurred with this recommendation. No components identified an accountable official with their fiscal year 2014 inventory submission. However, DOD's March 2016 guidance for the fiscal year 2015 inventory explicitly required the identification of an accountable official to help ensure that the inventory is integrated into key management decisions.

³⁰GAO-15-88.

³¹GAO-16-46.

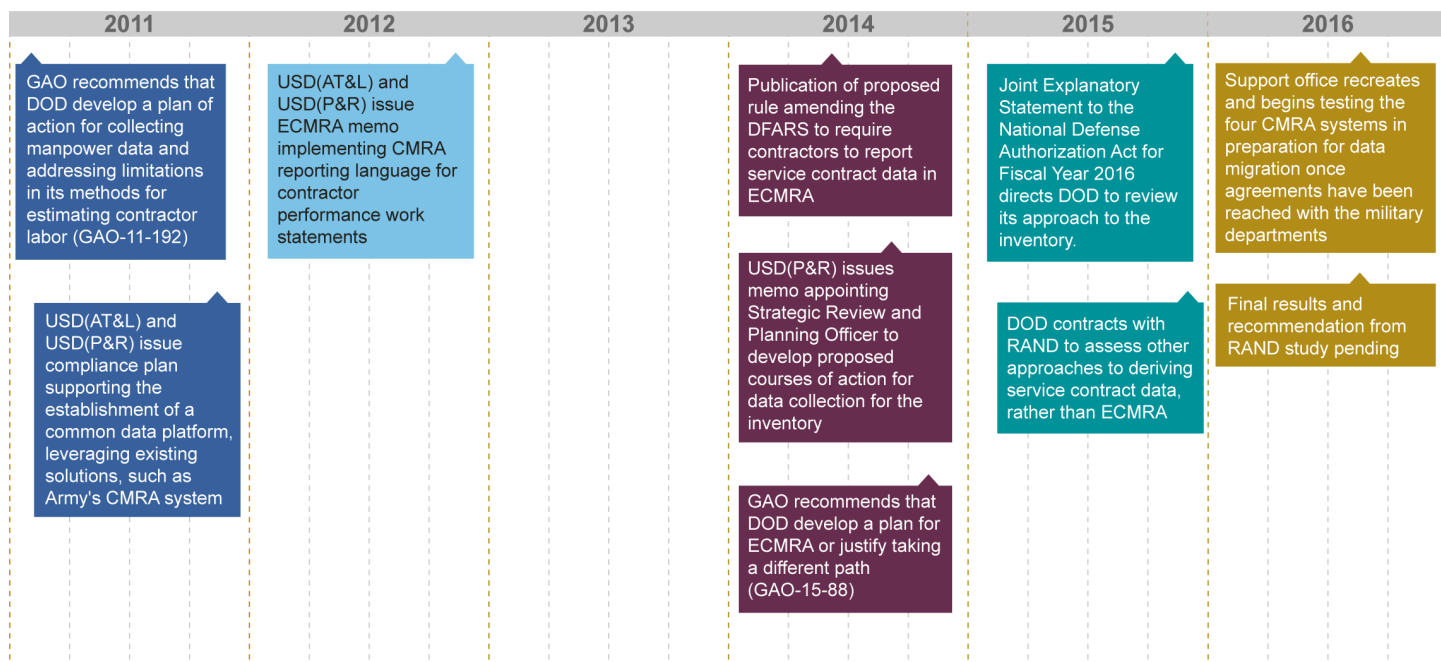
As of July 2016, 41 components had submitted their fiscal year 2015 inventories, of which 30 identified an accountable official in their transmittal letter. However, none of the three military departments, which represent 73 percent of service contract obligations reported in the fiscal year 2014 inventory, have yet identified an accountable official. In its transmittal letter for fiscal year 2015, the Air Force stated that it first needs to better understand the roles and responsibilities of the inventory management support office. The Army's fiscal year 2015 transmittal letter states that it is in the process of identifying an appropriate official. As of July 2016, the Navy has not yet submitted its fiscal year 2015 transmittal letter.

Slow Pace of Finalizing an Approach for Collecting Inventory Data Hinders Progress in Using Inventory for Decision Making

DOD has twice conducted reviews in the past two years to assess its approach to conducting the inventory. DOD officials noted that, to some degree, these reviews have contributed to delays in choosing the path forward for its underlying inventory data collection system, staffing the support office, and formalizing the roles and responsibilities of that office and its relationship to the military departments and other stakeholders. These delays may, in turn, hinder the development and implementation of plans and enforcement mechanisms for using inventory data to inform workforce and budget decision-making processes.

As shown in figure 5, DOD has struggled since 2011 to determine the best way forward for collecting data for the inventories.

Figure 5: Key Events Related to Department of Defense (DOD) Establishing a Common Manpower Data System for the Inventory



USD(AT&L) = Under Secretary of Defense for Acquisition, Technology, and Logistics

USD(P&R) = Under Secretary of Defense for Personnel and Readiness

CMRA = Contractor Manpower Reporting Application

ECMRA = Enterprise-wide Contractor Manpower Reporting Application

DFARS = Defense Federal Acquisition Regulation Supplement

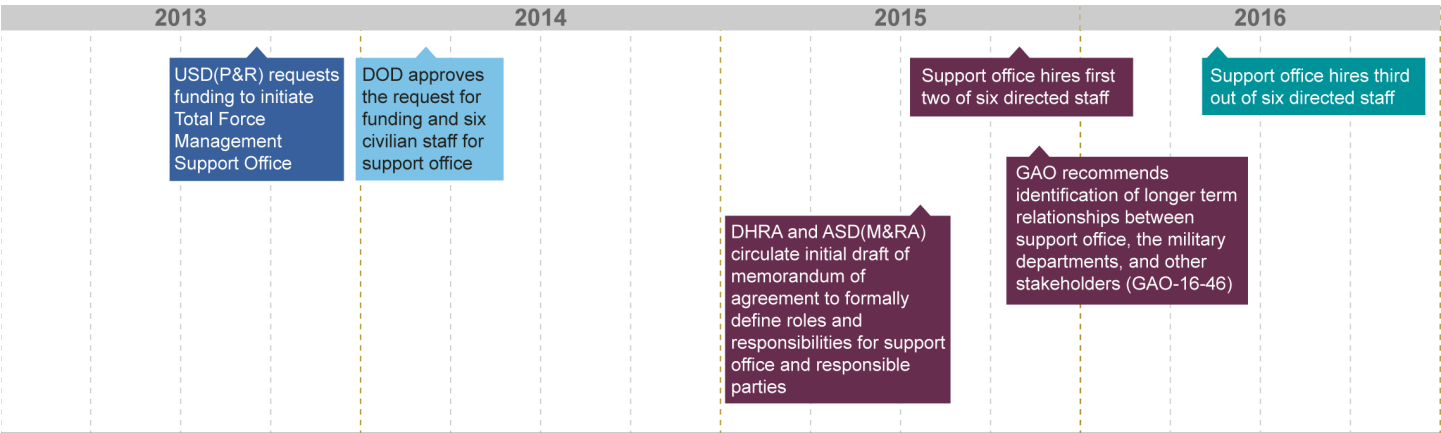
Source: GAO analysis of Department of Defense (DOD) documents. | GAO-17-17

In September 2014, DOD undertook an internal review of strategic options to identify, develop, and consider all reasonable options, in both the short and long terms, and propose courses of action for appropriate enterprise solutions to facilitate data collection for the inventory. However, DOD's strategic review of options in 2014 did not lead to a definitive way forward. In November 2014, we found that DOD's strategic review of options raised questions as to whether DOD will continue to implement ECMRA—a DOD-wide inventory data collection system modeled after the Army's CMRA system—or attempt to develop a new system. We concluded that, until such time as DOD components are able to collect the required data for their inventories, the utility of the inventory for making workforce decisions will be hindered. We recommended that, should a decision be made to use or develop a system other than the

ECMRA system currently being fielded, USD(P&R) should document the rationale for doing so and ensure that the new approach provides data that satisfies the statutory requirements for the inventory. In 2015, the Joint Explanatory Statement to the National Defense Authorization Act for Fiscal Year 2016 mandated that DOD report on the approach the department is taking to comply with the inventory requirement and whether it is producing a product that enhances oversight of service contracting activities. DOD contracted with the RAND National Defense Research Institute in December 2015 to assess the methods used by DOD to produce the inventory of contracted services and to recommend improvements, including alternative methods of collecting, processing, and reporting data on contracted services. RAND provided preliminary briefings to DOD in March and May of 2016, and its final report is expected to be delivered later this year.

While awaiting the results of its internal review and, subsequently, the RAND review, DOD delayed fully staffing its support office and defining its specific roles, authorities, and relationships to the military departments and other stakeholders, as shown in figure 6.

Figure 6: Key Events Related to Standing Up the Support Office



USD(P&R) = Under Secretary of Defense for Personnel and Readiness
DHRA = Defense Human Resource Activity
ASD(M&RA) = Assistant Secretary of Defense for Manpower and Reserve Affairs
Source: GAO analysis of Department of Defense (DOD) documents. | GAO-17-17

In 2014, a USD(P&R) official told us that DOD would defer the use of additional resources for the support office until such time as there had

been a decision whether to pursue a new approach or continue forward with implementation of ECMRA. Similarly, in 2016, USD(P&R) officials told us that they wanted to be more confident of the planned direction for the inventories before committing to additional hiring.

Further, more than two years since the support office was funded, DOD has yet to define the roles and responsibilities of the office. In November 2015, we recommended that USD(P&R) clearly identify these longer term relationships between the support office, military departments, and other stakeholders with respect to collection and use of inventory data. DOD concurred and told us that the release of a memorandum of agreement between the Assistant Secretary of Defense for Manpower and Reserve Affairs and the Director of the Defense Human Resource Activity on short term roles and responsibilities for the support office would do so, but as of August 2016, the memorandum of agreement had yet to be formalized. Additionally, DOD officials indicated that the memorandum of agreement will not address the roles to be played by the support office, the military departments, and other stakeholders in exploring the longer term solution to collecting contractor manpower data and integrating inventory data within the military departments' decision-making processes. Supplemental agreements will be necessary to formalize these relationships. The absence of clearly identified relationships between the support office and other stakeholders has hindered efforts to implement ECMRA and integrate the data into decision-making processes that will meet user needs and expectations.

In addition to these uncertainties about finalizing an approach to the inventory, our review found that DOD components' reliance on data captured in their CMRA systems for their inventories has varied. DOD's March 2014 guidance for the fiscal year 2013 inventory, as well as guidance for subsequent inventories, required components to include the percentage of their total contracts that were reported by contractors in their CMRA system and the extent to which reported data were used to support their inventory submission. Contractors are required to report labor hour data by the end of October for work executed during the period of performance within the one year period beginning October 1 of the prior year and ending September 30. DOD components are then supposed to use this contractor-reported data from CMRA to help develop their inventories. We found that 22 out of the 40 components, comprising about 96 percent of total FTEs reported in the DOD inventory, reported using CMRA data for the fiscal year 2014 inventory submission. In contrast, only nine components reported using CMRA to do so in the

fiscal year 2013 inventory. Table 2 identifies changes in use of CMRA data by the military departments from fiscal year 2013 to fiscal year 2015.

Table 2: Percentage of Contractor Full-Time Equivalents in the Inventory Submission Reported by the Military Departments as Based on the Contractor Manpower Reporting Application

	Fiscal year 2013	Fiscal year 2014	Fiscal year 2015
Air Force	24	28	28
Army	100	100	100
Navy	<1	15	25

Source: GAO analysis of Air Force, Army, and Navy reported data. | GAO-17-17

Air Force and Navy both continue to rely heavily on FPDS-NG data to derive the contractor FTEs for those contracts not entered into CMRA. Navy officials stated that they do not view all contractor-reported CMRA data to yet be robust enough to support consistent, reliable use for the inventory. However, as we have previously reported, the FPDS-NG system has several limitations that limit its utility for purposes of compiling a complete and accurate inventory, including

- not being able to identify and record more than one type of service purchased for each contracting action entered into the system,
- not being able to capture any services performed under contracts that are predominantly for supplies,
- not being able to identify the requiring activity specifically,³²
- not capturing service contracts awarded on behalf of DOD by non-DOD agencies, and
- not being able to determine the number of contractor FTEs used to perform each service.³³

Since 2011, we have made 13 recommendations to help improve how DOD collects, reviews, and uses the data from the inventory of contracted

³²The requiring activity is the organization charged with fulfilling a mission for or on behalf of DOD, and is responsible for delivering the service to satisfy the mission, even if the effort is contracted to the private sector.

³³[GAO-12-357](#).

services (see appendix I for a complete list and the status of DOD's actions to address them). We are not making any new recommendations in this report, but rather we underscore the need to address the 8 recommendations that remain open. In particular, DOD needs to resolve the long-standing delays and uncertainties regarding implementation of the ECMRA system—or an alternative to that system—which have hindered efforts to provide reliable and accurate data. Over five years ago, we recommended that DOD develop a plan of action with timeframes and necessary resources to measure DOD's progress in implementing a common data system and we offered a similar recommendation two years ago when it began to explore options for an appropriate enterprise solution to facilitate data collection. Delays in making that decision have had a cascading effect on fully staffing its management support office, as well as defining the roles, responsibilities, and relationships between this office, the military departments, and other stakeholders. Continued delays in making a decision increase the risk that DOD will remain unable to collect and analyze service contract data and develop associated business processes in a manner that supports workforce and budget planning. Conversely, choosing a path forward, providing a rationale for that choice, and developing a plan of action with implementation timeframes and milestones could help the department move toward an environment in which it can stop endlessly agonizing on whether to use ECMRA or an alternative system and focus on what data to collect and how best to use that data once collected. As we concluded in January 2011, the real benefit of the inventory will ultimately be measured by its ability to inform decision making. We further noted that the absence of a way forward was hindering the achievement of this objective. More than five years later, those conclusions remain unchanged.

Agency Comments

We are not making new recommendations in this report. We provided a draft of this report to the Department of Defense for comment. In its written comments, which are reprinted in appendix III, DOD stated that it is committed to improving its processes surrounding the inventory and to working to close the eight open recommendations discussed in the report. DOD also provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense; the Secretaries of the Army, Air Force, and Navy; the Under Secretary of Defense for Personnel and

Readiness; and the Under Secretary of Defense for Acquisition, Technology, and Logistics. In addition the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or dinapolit@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

A handwritten signature in black ink, appearing to read "Timothy J. DiNapoli". The signature is fluid and cursive, with the first name "Timothy" and last name "DiNapoli" clearly distinguishable.

Timothy J. DiNapoli
Director, Acquisition and Sourcing Management

List of Committees

The Honorable John McCain
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Thad Cochran
Chairman
The Honorable Richard J. Durbin
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Rodney Frelinghuysen
Chairman
The Honorable Pete Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Past GAO Reports and Recommendations on the Inventory of Contracted Services

Table 3: Past GAO Reports and Recommendations on the Inventory of Contracted Services

Report name	Recommendation	Status	Status description
<i>Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities, GAO-11-192</i>	Develop a plan of action, including anticipated time frames and necessary resources, to facilitate the department's stated intent of collecting manpower data and to address other limitations in its current approach to meeting inventory requirements, including those specific to Federal Procurement Data System – Next Generation.	⊗	The Department of Defense (DOD) still lacks a comprehensive plan with timeframes and necessary resources to measure its progress toward a common data system and associated business processes. In our November 2014 report, GAO-15-88 , we made a similar recommendation to DOD to approve a plan of action, with timeframes and milestones, for rolling out and supporting a department-wide data collection system.
	Assess ways to improve the department's approach to estimating contractor full-time equivalents (FTE) until the department is able to collect manpower data from contractors.	●	In December 2011, the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) and the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) issued guidance that identified five methodologies components could use to estimate or calculate contractor FTEs. Subsequently, in November 2012, the USD(P&R) and USD(AT&L) issued a joint memorandum that instructed components to require contractors to report all contractor labor hours into an Enterprise-wide Contractor Manpower Reporting Application.
<i>Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services, GAO-12-357</i>	Ensure that the military departments and defense components issue guidance to their commands that provides clear lines of authority, responsibility, and accountability for conducting an inventory review and resolving instances where functions being performed by contractors are identified as inherently governmental functions.	●	In February 2013, DOD added a new reporting element to their inventory guidance that requires components to report on the actions taken with respect to inherently governmental functions.
	Ensure that the instances where contractors were still performing functions previously identified as inherently governmental are properly resolved.	●	Army and Air Force officials told us that the eight collective instances identified in that report had been resolved.
<i>Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services, GAO-13-491</i>	Ensure that all required inventory review data elements, including a comprehensive description of their inventory review methodology, are addressed in their certification letters.	●	Inventory guidance has been clarified to support this recommendation.
	Provide updated information in certification letters on how they resolved the instances of contractors performing inherently governmental functions or unauthorized personal services in prior inventory reviews.	◐	The table required by inventory guidance provides information on the instances, but not on how they were resolved.

**Appendix I: Past GAO Reports and
Recommendations on the Inventory of
Contracted Services**

Report name	Recommendation	Status	Status description
<i>Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services,</i> GAO-15-88	Revise annual inventory review guidance to clearly identify the basis for selecting contracts to review and to provide approaches the components may use to conduct inventory reviews that ensure the nature of how the contract is being performed is adequately considered. If DOD intends for components to review less than 100 percent of its contracts, then the guidance should clearly identify the basis for selecting which contracted functions should be reviewed.	●	Inventory guidance states that components are to review all contracts, but does not provide approaches the components may use to ensure the nature of how the contract is being performed is adequately considered in the inventory review. Also, some components are not reporting on the percentage of contracts reviewed or are not reviewing 100 percent.
	Approve a plan of action, with timeframes and milestones, for rolling out and supporting a department-wide data collection system as soon as practicable after December 1, 2014. Should a decision be made to use or develop a system other than the Enterprise-wide Contractor Manpower Reporting Application system currently being fielded, document the rationale for doing so and ensure that the new approach will provide data that satisfies the statutory requirements for the inventory.	○	DOD still lacks a comprehensive plan with timeframes and milestones to measure its progress toward a common data system and associated business processes. Further, DOD has not made a final decision on the approach going forward.
	Identify an accountable official within the departments with responsibility for leading and coordinating efforts across their manpower, budgeting, and acquisition functional communities and, as appropriate, revise guidance, develop plans and enforcement mechanisms, and establish processes.	●	As of July 2016, 30 of the 41 components that have submitted a fiscal year 2015 inventory have identified an accountable official. However, the three military departments have yet to do so.
<i>DOD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data Are Complete and Accurate,</i> GAO-16-46	Provide clear instructions, in a timely manner, on how the services requirements review boards are to identify whether contract activities include closely associated with inherently governmental functions.	○	DOD Instruction 5000.74 discusses processes for the services requirements review boards, but does not mention closely associated with inherently governmental functions in that context.
	Require acquisition officials to document, prior to contract award, whether the proposed contract action includes activities that are closely associated with inherently governmental functions.	○	DOD has not yet issued supplemental direction to require acquisition officials to document whether the proposed contract action includes activities that are closely associated with inherently governmental functions.

**Appendix I: Past GAO Reports and
Recommendations on the Inventory of
Contracted Services**

Report name	Recommendation	Status	Status description
	Ensure that military departments and defense agencies review, at a minimum, those contracts within the product service codes identified as requiring heightened management attention and as more likely to include closely associated with inherently governmental functions.	●	The fiscal year 2015 guidance on the inventory of contracted services explicitly requires this, but it is too soon to know whether this approach will be effective.
	Clearly identify the longer term relationships between the support office, military departments, and other stakeholders.	○	A primary memorandum of agreement and secondary agreements with the military departments to clearly identify relationships and roles of the various stakeholders have not been finalized.

Legend:

- - Open, Not Implemented
- - Open, Partially Implemented
- ⊗ - Closed, Not Implemented
- - Closed, Implemented

Source: GAO. | GAO-17-17

Appendix II: Summary of Prior Findings on the Military Departments' Implementation of Plans to Facilitate Use of the Inventory

In November 2014, GAO reported on the status of efforts by the military departments to develop plans with enforcement mechanisms to use the inventory of contracted services to inform management decisions in three primary areas: strategic workforce planning; workforce mix; and budgeting. In November 2015, we updated these findings. In those reports, we determined that the military departments generally had not developed plans and enforcement mechanisms to use the inventory to inform these decisions, as required by subsection 2330a(f) of title 10 of the U.S. Code.¹ Our current work found minimal updates to these guidance with specific reference to use of the inventory of contracted services for management decisions. The primary exception relates to budgeting, where the Army's Command Program Guidance memorandum for the Fiscal Years 2018-2022 Program Objective Memorandum requires the Army to use the inventory review when formulating budget requests for contracted services. The following summarizes the degree to which the Department of Defense (DOD) and the military departments' guidance currently require the use or consideration of the inventory in these areas and identifies where DOD or the military departments have updated their guidance since our November 2015 report. Updates since our November 2015 report are *italicized* in the following tables.

Strategic Workforce Planning, Workforce Mix, and Insourcing Guidance Generally Do Not Require the Use of the Inventory

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) has overall responsibility for developing and implementing DOD's strategic workforce plan to shape and improve DOD's civilian workforce, including an assessment of the appropriate total force mix. USD(P&R) issued guidance that designated responsibility for the development of the strategic workforce plan to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy, but did not require use of the inventory. The guidance pre-dates the statutory requirement to use the inventory to inform strategic workforce planning. For example, the Fiscal Years 2013-2018 Strategic Workforce Plan, the most recent plan available at the time of our November 2014 and 2015 reviews, stated that DOD's plans for identifying and assessing workforce mix will leverage the

¹GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: Nov. 19, 2014); and *DOD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data Are Complete and Accurate*, [GAO-16-46](#) (Washington, D.C.: Nov. 18, 2015).

inventory of contracted services, but did not provide any additional details on using the inventory.

None of the three military departments had developed a statutorily required plan or enforcement mechanism to use the inventory of contracted services for strategic workforce planning and generally they had not developed guidance or processes for these purposes (see table 4).

Table 4: Role of the Inventory of Contracted Services in Existing Strategic Workforce Planning Guidance and Processes at the Three Military Departments

	Air Force	Army	Navy
Plans and enforcement mechanisms	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services.		
Guidance	No department-unique strategic workforce guidance. The Air Force issued a broad framework in July 2014 to guide long-range planning, but it did not mention the inventory of contracted services.	No department-unique strategic workforce guidance.	No department-unique strategic workforce guidance.
Processes	Air Force acquisition and manpower officials report that data derived from the inventory—such as contractor name, direct labor hours, and full-time equivalents—are entered into a manpower document to provide historical perspective on where contracts were performed. The inventory data were not used in a planning capacity.	No processes in place to use the inventory to inform strategic workforce planning.	In 2012, the Navy formed a Total Force Integration Board for managing the total force. The charter for this board, however, does not mention the inventory of contracted services and a manpower official reported that the board did not meet regularly.

Source: GAO analysis of military department guidance and processes. | GAO-17-17

DOD has two department-wide policies for determining workforce mix—DOD Directive 1100.4 and DOD Instruction 1100.22—but neither currently requires the use of the inventory to inform workforce mix planning. DOD Directive 1100.4, dated February 2005, provides general guidance concerning determination of manpower requirements, managing resources, and manpower affordability. According to USD(P&R) officials, revisions to this directive, which are currently under review, will explicitly require use of the inventory to inform budgeting and total force management decisions. DOD Instruction 1100.22, dated April 2010, provides manpower mix criteria and guidance for determining how individual positions should be designated based on the work performed.

This instruction does not direct the military departments to develop a plan to use the inventory to inform management decisions, as DOD issued it before the enactment of the requirement for developing such plans.

DOD's primary insourcing guidance is reflected in April 4, 2008, and May 28, 2009, memorandums.² These memorandums reiterate statutory requirements by calling for DOD components and the military departments to use the inventory of contracted services to identify functions for possible insourcing and to develop a plan for converting these functions within a reasonable amount of time. Among the military departments, however, only Army has guidance and a process that requires use of the inventory of contracted services for insourcing. However, the military departments have not issued guidance for managing workforce mix that requires the use of the inventory of contracted services (see table 5).

Table 5: Role of the Inventory of Contracted Services in Existing Workforce Mix and Insourcing Guidance and Processes at the Three Military Departments

	Air Force	Army	Navy
Plans and enforcement mechanisms	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services.		
Guidance	Three Air Force Instructions—38-201, issued in January 2014, 38-2 and 38-203, issued and updated in February 2013—provide guidance on complying with DOD's manpower mix policy, but did not discuss the inventory of contracted services in a planning capacity.	Army Regulation 570-4 "Manpower Management," issued in February 2006, implements DOD's manpower mix directive, but pre-dates the requirements of subsection (f) and did not discuss the inventory of contracted services in a planning capacity. Army's July 2009 memorandum, "Army Policy for Civilian Workforce Management and Service Contracts," identifies responsibility for development and execution of Army	<i>No department-unique workforce mix and insourcing guidance.</i>

²The insourcing memorandums are the April 4, 2008, memorandum, "Implementation of Section 324 of the National Defense Authorization Act for Fiscal Year 2008 (FY 2008 NDAA)—Guidelines and Procedures on In-Sourcing New and Contracted Out Functions" and the May 28, 2009, memorandum, "In-Sourcing Contracted Services – Implementation Guidance."

**Appendix II: Summary of Prior Findings on the
Military Departments' Implementation of Plans
to Facilitate Use of the Inventory**

	Air Force	Army	Navy
		<p>insourcing plans based on the inventory of contracted services.</p> <p><i>Army's September 2014 Delegation of In-Sourcing Approval Authority memorandum delegates approval authority for all insourcing proposals to the Assistant Secretary of the Army (Manpower and Reserve Affairs) but does not mention the inventory of contracted services.</i></p> <p><i>Army's November 2014 memorandum, "Guidance for Justifying Transfers of Workload" provides guidance on justified and unjustified transfers of workload in accordance with statutes and policies to achieve an appropriate and cost-effective mix of manpower, but does not mention the inventory of contracted services.</i></p>	
Processes	<p>Air Force officials stated that the department holds service contract review boards which have a role in the requirement approval process, among other things. According to the officials, the review was in the beginning stages at the time of our review in November 2014. <i>More recently, the Air Force reported in its combined fiscal year 2014 inventory review and fiscal year 2015 inventory submission that it has institutionalized the Support Services Requirements Review (SSRR) process which includes the inventory review questions. However, it is still not using the inventory to inform workforce mix and insourcing decisions.</i></p>	<p>Army used the Panel for Documentation of Contractors review process to determine whether to insource a contracted function.</p> <p>Additionally, Army used the Request for Services Contract Approval form, developed in 2009, to inform contract award and insourcing decisions.</p>	<p>Navy was implementing DOD-wide policy through its Service Requirement Review Boards, which include a process to consider whether requirements encompass inherently governmental or closely associated with inherently governmental functions, among other things, but did not require use of the inventory of contracted services to do so.</p>

Source: GAO analysis of Department of Defense (DOD) guidance and processes. | GAO-17-17

Programming and Budget
Decisions Generally Do
Not Require the Use of the
Inventory, Though Data on
Estimated Contractor Full-
Time Equivalents (FTE)
Are Included in the Budget

DOD's Financial Management Regulation provided, among other things, guidance to the military departments on budget formulation and presentation; however, these regulations did not require the military departments to use the inventory in formulating and presenting their budgets.³ At the military department level, the Air Force had issued additional instructions in terms of budget formulation and presentation. However, the Air Force's guidance did not require the use of the inventory. More recently, the Army's February 2016 guidance, Command Program Guidance Memorandum for the Fiscal Years 2018-2022 Program Objective Memorandum, requires the use of the inventory review certification in budget formulation.

The Comptroller issued supplemental guidance requiring, among other things, that the military departments and defense components provide information on the number of FTEs as required under section 235 of title 10 of the U.S. Code, but this guidance did not require reporting the amount of funding requested for contracted services. The Comptroller guidance for budget submissions from all components instructed DOD components to ensure that contractor FTEs reported in the budget exhibit were consistent with those in DOD's inventory of contracted services.⁴ Both Navy and Air Force officials reported that they used the inventory of contracted services to estimate the number of contractor FTEs for inclusion in their budget request. The Army budget office could not identify how the Army estimated FTEs in the Army's budget submission (see table 6).

³DOD 7000.14-R Department of Defense Financial Management Regulation.

⁴The Comptroller's guidance was issued in three memorandums: the December 16, 2011 memorandum, "Fiscal Year (FY) 2013 President's Budget Submission"; the February 5, 2013 memorandum, "Fiscal Year (FY) 2014 President's Budget Submission"; and the January 29, 2014 memorandum, "Fiscal Year (FY) 2015 President's Budget Submission."

**Appendix II: Summary of Prior Findings on the
Military Departments' Implementation of Plans
to Facilitate Use of the Inventory**

Table 6: Role of the Inventory of Contracted Services in Existing Budgeting Guidance and Processes at the Three Military Departments

	Air Force	Army	Navy
Plans and enforcement mechanisms	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services.		
Guidance	Air Force Instructions 65-601, Volumes 1-3 on financial management did not link to using the inventory of contracted services. The Air Force also followed guidance issued by the DOD Comptroller.	The Army followed guidance issued by the DOD Comptroller. <i>In addition, the Army's Command Program Guidance Memorandum (CPGM) for the Fiscal Years 2018-2022 Program Objective Memorandum, issued in February 2016, requires the Army to use the inventory review when formulating budget requests for contracted services.</i>	No Navy-specific budget guidance. The Navy followed guidance issued by the DOD Comptroller.
Processes Budget formulation and execution	The Air Force did not have a process for using the inventory of contracted services for budget formulation and execution.	<i>The Army is to use the inventory review when formulating their budget request for contracted services, pursuant to the CPGM referenced above.</i>	The Navy did not have a process for using the inventory of contracted services for budget formulation and execution.
Estimating contractor full-time equivalents (FTE)	To estimate contractor FTEs, the Air Force budget office used the inventory to arrive at an average cost of contractors. The Air Force then divided the contractor dollar amounts reported in the budget submission to arrive at an estimated number of contractor FTEs and submitted this number for the DOD budget exhibit.	The Army budget office did not use the inventory of contracted services to inform budgeting or estimate contractor FTEs.	To estimate contractor FTEs, the Navy budget office used the inventory to arrive at average cost of contractors. The Navy then divided the contractor dollar amounts reported in the budget submission to arrive at an estimated number of contractor FTEs and submitted this number for the DOD budget exhibit.

Source: GAO analysis of Department of Defense (DOD) programming and budget guidance. | GAO-17-17

Appendix III: Comments from the Department of Defense



MANPOWER AND
RESERVE AFFAIRS

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OCT 21 2016

Mr. Timothy DiNapoli
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Mr. DiNapoli,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-17-17, 'DOD INVENTORY CONTRACTED SERVICES: Timely Decisions and Further Actions Needed to Address Longstanding Issues,' dated September 13, 2016 (GAO Code 100638).

The Department appreciates the GAO's continued work in this area. The Department is committed to improving our processes for the collection, analysis, and reporting of contracted services to ensure our Total Force is appropriately, and efficiently, sized and balanced in terms of the right mix of military, civilian, and contracted services needed to support our diverse mission set. To that end, the DoD looks forward to continuing to work with the GAO towards closing the eight open recommendations, consistent with the Department's prior positions on those, made since 2011 during GAO's prior work engagement on the inventory of contracted services.

As noted in the Department's September 20, 2016 Report to Congress on the Fiscal Year 2015 Inventory of Contracted Services, signed by the Honorable Frank Kendall, Under Secretary of Defense for Acquisition, Technology, and Logistics, the Department considers the inventory to be an effective tool used to inform budget plans and workforce mix decisions, and we are continuing to enhance the processes associated with compiling it. In addition, the Department recognizes the need and benefit of collecting direct labor hours and cost data from contractors to account for and report CFTEs with greater accuracy. The Department continues to fully implement the Enterprise-wide Contractor Manpower Reporting Application, and the associated support staff and processes necessary to improve data collection and reporting.

Should you have any questions, please contact my primary action officer for this engagement, Mr. Thomas Hessel at 703-697-3402 or thomas.j.hessel.civ@mail.mil.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rich Robbins", is written over a horizontal line.

Rich Robbins
Director, Total Force Manpower &
Resources

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Timothy J. DiNapoli, (202) 512-4841 or dinapolit@gao.gov

Staff Acknowledgments

In addition to the contact named above, Janet McKelvey (Assistant Director); Emily Bond; Virginia Chanley; Mackenzie Doss; Kristine Hassinger; Julia Kennon; Scott Purdy; and Roxanna Sun made significant contributions to this review.

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